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Public Service Commission

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April 23, 1993

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: In the Matter of SIMPLIFICATION OF THE DEPRECIATION PRESCRIPTION PROCESS
CC Docket No. 92-296

Dear Ms. Searcy:

On behalf of the Florida Public Service Commission, please find enclosed an original and five copies of the Commission's Request. An extra copy is also enclosed with a stamped, self-addressed envelope; please date stamp and return.

Please contact me should you have any questions concerning this matter.

Sincerely,

William E. Wyrough, Jr.
Associate General Counsel

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Enclosures

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

BEFORE THE

Federal Communications Commission

WASHINGTON, D.C.

In the Matter of Simplification of the Depreciation Prescription Process	)	CC Docket No. 92-296

FLORIDA PUBLIC SERVICE COMMISSION'S EX PARTE COMMENTS IN THE MATTER OF SIMPLIFICATION OF THE DEPRECIATION PRESCRIPTION PROCESS

INTRODUCTION

The Florida Public Service Commission (FPSC), through its undersigned attorney, hereby files ex parte comments in the Matter of Simplification of the Depreciation Prescription Process. On December 29, 1992, the Federal Communications Commission (FCC) released a Notice of Proposed Rulemaking (NPRM) wherein comment was sought on proposals to simplify procedures in the FCC's depreciation prescription process. The FPSC submits these comments to the proposals with references to several initial comments filed with the FCC by March 10, 1993. Pursuant to FCC Rules (47 C.F.R. Sections 1.1202, 1.1203, and 1.1206), these comments are not restricted by the Sunshine Agenda Period and a copy has been submitted to the Secretary for public disclosure.

We support the initial comments filed by the National Association of Regulatory Utility Commissioners (NARUC) with some modification as discussed herein. While the desire to simplify the

We support the initial comments filed by the National Association of Regulatory Utility Commissioners (NARUC) with some modification as discussed herein. While the desire to simplify the depreciation prescription process is admirable, we caution the FCC to not lose sight of the fundamental purpose of depreciation, that is, to recover prudently invested capital over the period of time the assets represented by that capital are serving the public.

While the NPRM requests comments regarding whether the given simplification option should be utilized for all plant accounts or just specific accounts, the NARUC comments are silent on this issue. We strongly urge the Commission to limit initial utilization of a simplification option to those accounts which are more stable and which are least affected by individual company planning and technological change.[1] By simplifying the process for stable accounts, more resources could be dedicated to studying, analyzing and evaluating the remaining accounts which represent the more volatile and the more highly disputed accounts.[2]

In addition, we support the NARUC's comments regarding continued use of the Equal Life Group procedure (ELG) and would urge the FCC to no longer permit the use of ELG. The NARUC states that the carriers' ability to move within the ranges established for the depreciation factors makes the continued use of ELG appear

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[1]These stable accounts include: General Support Assets, Operator Systems, Circuit DDS, Other Terminal Equipment, Poles, Fiber Cable, Submarine Metallic Cable, Intrabuilding Metallic Cable, Aerial Wire and Conduit.

[2]These volatile accounts include: Switching and other Circuit, Metallic Cable such as Aerial, Underground, and Buried.

The controversy in these accounts centers on how fast photon superfluous. Further, using curve shapes based on industry-wide data, which may or may not bear any resemblance to a particular carrier's experience and projections, makes the ELG procedure even more a mechanism to increase cash flow. Finally, not having to maintain the detailed records required for ELG will surely produce additional cost savings for the carriers.

Although not addressed in the NARUC comments, the NPRM suggests that simplification of the depreciation prescription process should place more responsibility on the carriers to analyze the underlying depreciation factors and determine the reasonableness of their depreciation expense. For this reason, assuming the carrier will have the option whether to select the simplified approach, we suggest that recovery of any reserve deficiencies occurring as the result of a carrier using any of the range options should be the responsibility of the shareholders, and not the ratepayers.

The Price Cap Carrier Option

In comments filed by the United States Telephone Association (USTA), the Price Cap Carrier Option is favored as achieving the greatest simplification and the greatest reduction in administrative costs if made available for all accounts. We believe that this option would be tantamount to the deregulation of depreciation, especially if adopted as the USTA has proposed.

The USTA suggests that the carriers file the depreciation rate parameters (reserves, life and salvage estimates), current and proposed depreciation rates, and accrual changes, with a letter of explanation. This information, in its view, will be adequate for the FCC Staff as well as affected state commissions to provide detailed input as to the adequacy of the carrier's proposed depreciation rates. However, since no supporting data would have to be furnished, FCC analysis would be impossible. This summary information will not provide any party an adequate basis for agreeing or disagreeing with the carriers' proposals and can only put the FCC staff in a position of "rubber-stamping" unless the supporting data is requested, in which case, there will be no simplification or cost savings gained. The USTA's comments infer that under this option, the carriers will continue to conduct

Reserve deficiencies will continue to occur in the future anytime lives are shortened due to technological obsolescence or net salvage changes from the current position. It is simply wrong to assume that reserve deficiencies are less likely to occur if the carriers are permitted to determine their own depreciation parameters and rates.

The USTA states that the price cap option places the primary responsibility for capital recovery where it belongs; that is, on the carrier that is affected, and that it makes the carrier responsible for planning how its investment will be recovered in the markets in which it operates. This being the case, it is our require recovery of the asset over its estimated useful life.[3] However, this estimation of the useful life is the very factor where manipulation can occur to avoid sharing.[4]

Respectfully submitted,

WILLIAM E. WYROUGH, JR.
Associate General Counsel

FLORIDA PUBLIC SERVICE COMMISSION
101 East Gaines Street
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Dated: April 23, 1993

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[3]GTE Service Corporation - Comments at page 8.
BellSouth - Comments at page 26.
Southern New England Telephone Co. - Comments at page i & ii.
Southwestern Bell Telephone Co. - Comments at page 13.

[4]Even the comments submitted by United Telephone-Southeast, Inc., at page 6, agree that a price cap company could use depreciation practices to micromanage earnings and "game" the sharing process.